

AR27

ANNUAL REPORT

For Year Ending
31 December 1975

PHOENIX CANADA OIL COMPANY
LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors	S. DONALD MOORE JASON GOULD JOHN A. MURPHY	Toronto, Canada Irvington-on-Hudson, New York Scarborough, Canada
Officers	S. DONALD MOORE JOHN A. MURPHY	President Secretary-Treasurer
Operating Offices	EXECUTIVE OFFICES	700 — 15 Toronto Street Toronto, Canada M5C 2E3
	WESTERN CANADA	502 — 630 - 8th Avenue, S.W. Calgary, Canada T2P 1G6
	UNITED STATES (DIRECTOR)	285 Madison Avenue New York, New York 10017
Banking	THE ROYAL BANK OF CANADA MAIN BRANCH and MAIN BRANCH	Toronto, Canada Calgary, Canada
	THE BANK OF NOVA SCOTIA NEW YORK AGENCY	New York, New York
	BANK OF AMERICA SUCURSAL QUITO	Quito, Ecuador
Stock Exchange Listing	MONTREAL STOCK EXCHANGE	
Transfer Agents	GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada
Auditor	HARBINSON, GLOVER & CO.	Toronto, Canada
Capitalization	AUTHORIZED	5,000,000 Shares (\$1.00 par value)
	ISSUED	2,021,856 Shares

The contents of this Report is intended to inform present Shareholders about the Company and its operation. It is not an offer of sale or a solicitation of an offer to buy securities unless preceded or accompanied by a current Prospectus which contains information concerning the Company and on any current public offering of its securities.

phoenix canada oil company limited *T/H*

STATEMENT OF OIL PRODUCTION INCOME AND CHANGES IN FINANCIAL CONDITION

For the Six Months Ended 30 June 1975

(With comparative figures for the period 30 June 1974)

(Prepared from Company Records without Audit)

OIL PRODUCTION INCOME

	30 June 1975	30 June 1974
Foreign (Ecuador) gross operating revenue from oil production (NOTE 1) <i>→</i>	\$2,226,045	\$2,570,000
Less: Direct operating expenses; — Pipeline tariffs	40,845	72,300
	<u>2,185,200</u>	<u>2,497,700</u>
Less: Foreign (Ecuador) taxation, including income and export taxes, port and pipeline taxes; and foreign exchange charges	1,985,530	2,260,437
	<u>199,670</u>	<u>237,273</u>
Less:		
Administration and general expenses	30,330	42,677
Depreciation	156	—
Deferred Ecuador expenses written off and amortization of administration expenses	10,377	—
	<u>40,863</u>	<u>42,677</u>
Net operating income	158,807	194,596
Net investment income	2,661	436
Net income for the period <i>→</i>	<u>\$ 161,468</u>	<u>\$ 195,032</u>
Earnings per share <i>→</i>	<u>7.98 cents</u>	<u>9.64 cents</u>

CHANGES IN FINANCIAL POSITION

Working capital derived from:

Net income for the period	\$ 161,468	\$ 195,032
Non-cash items	10,533	—
	<u>172,001</u>	<u>195,032</u>

Working capital applied to:

Exploration and development expenses	3,800	4,126
Advances to associated companies	345	75
Purchase of fixed assets	—	80
	<u>4,145</u>	<u>4,281</u>
Increase in working capital	167,856	190,751
Working capital or (deficiency) at beginning of period	328,174	(14,205)
Working capital at end of period (NOTE 2)	<u>\$ 496,030</u>	<u>\$ 176,546</u>

NOTE 1 — Texaco-Gulf has not provided production accounting statements for the period under review. The Company relied on Ecuador Government records to determine applicable revenues, expenses and other deductions.

NOTE 2 — From June 1974, the Company is required to invest 50% of net Ecuador income in approved national development projects. At 30 June 1975, the special Banco Central del Ecuador deposit for this purpose was \$US286,448.

5-30
AR27

2,185/2

interim shareholder report
for the six months ended 30 June 1975

CanCorp

File

phoenix canada oil company limited

suite 700 • 15 toronto street • toronto • canada • M5C 2E3

to PHOENIX shareholders:

During the period under review, Ecuador Oriente (including Coca Contract area) oil production averaged 138,837 bbls/day (monthly January-June: 146,626; 167,473; 26,173; 206,245; 150,084; 136,424), well below 250,000 bbls/day pipeline capacity and 210,000 bbls/day authorized conservation allowable. Recessionary world markets and technical difficulties in March sharply reduced throughput. Following moderate price-taxation reductions in July, production has expanded sharply to current levels at well over 200,000 bbls/day.

Ecuador's royalty price remains unchanged at \$13.90/bbl (basis 30° crude). Coca Contract area output, relative to gross production, benefits from the start of Auca Field operations in April. Ambitious Ecuador infrastructure development, requiring sizeable foreign exchange earnings, can result in expanded production allowables. The newly-appointed Minister of Natural Resources is experienced in the petroleum industry.

The Company's lawsuit against Texaco and Gulf and their Ecuador subsidiaries (75 Civil 3052), filed in New York on 23 June 1975, is moving into pre-trial procedures. Counsel advises that initial replies to several Company services are due this month.

Panarctic's Bent Horn stepout, near our Northwest Bathurst royalty interests (1.0% in 704,273 acres operated by Union Oil and 1.625% in 126,564 acres operated by Great Plains), is re-drilling below 6,900 ft., whipstocked from near total depth of 10,500 ft. in the initial well because of technical difficulties. Our acreage extends to about 20 miles from the April 1974 Bent Horn light oil discovery. We retain working interests, largely 6.8%, in 726,262 acres on Ellef Ringnes, Ellesmere and Devon Islands.

Prospects for the Company's Nigeria royalty interest (35.799% of 1% of 7/8 — or 0.31325%) in the Phillips-operated 109,252 acre OML96 Lease

containing the Gilli Gilli and Gilli Gilli North discoveries are improved by Pan Ocean's pipeline plans for their Ogharefe Field, about 10 miles southeast of the Gilli Gilli block. Several alternatives for placing Gilli Gilli into production are under evaluation. Although world oil production levels remain under pressure, Nigeria maintains a premium price of \$14.69/bbl (basis 34° crude) for their high quality oil.

The Alberta Oil Sands Technology & Research Authority, established by the Alberta Government for their Project "Energy Breakthrough," is now operating with a \$100-million budget. Special emphasis is being given in situ recovery techniques within the vast subsurface heavy oil reserves of Northeastern Alberta; less than 5% of the estimated 600-billion barrels of reserves in place are presently recoverable by conventional surface mining operations, and then only under optimum economic conditions. We are invited to submit nuclear stimulation plans (Lindsley-Northfield Canada Patent 774,931; Utilization of Nuclear Energy) by November 1st for consideration for phased funding. Our presentations will propose four stages of AOSTRA funding; the first will comprise the detailed Environmental Impact Statement. The succeeding stages include: (2) Political Affairs and Public Relations (District, Regional, Provincial, Federal and International); and (3) Engineering Design, Planning and Budgets; and (4) Site Preparation, Detonation and Post-Shot Operations.

Negotiations continue on Company proposals for participating in the research and development of a special proprietary approach to uranium U-235 isotope enrichment — "Uranium Laser Isotope Separation" — for the electric utility sector. Successful isotope separation with lasers will very substantially reduce current uranium enrichment costs.

Submitted on Behalf of the Board:
by: S. Donald Moore; President

10 September 1975

THE DIRECTORS' ANNUAL REPORT

To The Shareholders:

We are now in a financial position to make significant commitments in energy-related ventures. The appended Financial Statement reports that our working capital position continues to improve and that our capitalization comprises only common share capital, unchanged the past year, with no outstanding senior securities, funded debt, warrants or rights that can dilute Shareholder equity. Several existing assets and operations offer interesting potential for income and appreciation in the foreseeable future. Outside proposals and new ventures are under continual evaluation. We anticipate an interesting and profitable year.

Ecuador Assets and Operations

PHOENIX production income now derives from about 100 wells in the Sacha, Shushufindi and Auca Fields. Total Oriente production was restricted to an average of about 140,000 bbls/day during the 1975 first-half by recessionary world oil market conditions and isolated technical problems. Following a new pricing and production agreement in July between the Ecuador Government and Texaco-Gulf, production rapidly increased to average over 185,000 bbls/day during the second half-year. Latest production reports (May 1976) indicate pipeline throughput averaging over 200,000 bbls/day. The official Government reference price on which our production income is based remains at \$13.70/bbl (basis 28° gravity crude) — or near \$14.00/bbl for the average 30.4° gravity low-sulphur oil exports.

In accordance with an Ecuador Government decree of 3 June 1974 (see Financial Statements), 50% of net Ecuador income is ear-marked for approved national investment. We have just completed the land acquisition and numerous legal technicalities prerequisite to the construction of a critically-needed international-class luxury hotel on a prime view location within the national capitol of Quito. The formal feasibility report and preliminary design studies suggest a project comprising a 300-350 room hotel, with complete convention and recreation facilities, budgeted at over \$15,000,000.

No progress can yet be reported on continuing contacts with the Ecuador Government on a service/production-sharing contract covering the former World Ventures lands. About \$20,000,000 of exploration and wildcat drilling (perhaps \$70,000,000 at current prices) between 1967 and 1972 resulted in at least 3 commercial discoveries. Service contracts on the Peruvian or Bolivian models, incorporating Indonesian precedent, could be the route Ecuador eventually will take to revive Oriente exploration. In December 1975, a new decree combined all the numerous Texaco-Gulf production taxes and operating fees into a single, approximately 72%, unitary tax or Government "take." This figure may be cranked into future service-type contract arrangements, indicating possible terms in the vicinity of a 72-28 production split in favor of the Government.

Previous Shareholder and press releases have reported on the Company's lawsuit against Texaco, Inc., Gulf Oil Corporation and their Ecuador subsidiaries, filed 23 June 1975 in the United States District Court, Southern District of New York (75 Civil 3052). While it is inappropriate to comment on pending litigation, the following excerpts

from the Company's official June 1975 Press Release are reprinted for Shareholder information and background:

"Toronto, June 24 . . . Phoenix Canada Oil Co. Ltd. has sued Texaco Inc., Gulf Oil Corp. and their Ecuador subsidiaries in New York Federal Court for accountings, breach of contract and damages aggregating over \$600-million. Phoenix also seeks punitive damages of \$500-million. Phoenix alleges that the defendants engaged in a conspiracy that effectively destroyed its 1% gross royalty interest in about 4-billion barrels of Ecuador oil reserves currently producing over 200,000 barrels per day.

"From 1969, after it became apparent that major oil reserves had been discovered on the royalty lands, Phoenix alleges that the defendants developed and implemented a conspiracy to eliminate or impair its gross royalty interest, to destroy Phoenix as a going concern and to remove Phoenix as a competitor in Ecuador and elsewhere. In 1973, Ecuador's OPEC membership recognized the major reserves developed by Texaco and Gulf.

"Oil trade journals report Ecuador oil reserve estimates exceeding 5-billion barrels. Based on field production potentials, about 80% of Texaco and Gulf's Ecuador reserves are indicated as subject to the Phoenix royalty. Lawsuit damage claims are determined on about 4-billion barrels of oil reserves subject to the 1% gross royalty. Since January 1974, Ecuador's reference price for their low sulphur, high quality crude has been \$13.90 per barrel, basis 30° gravity crude.

"Phoenix alleges that the Texaco-Gulf campaign to destroy its royalty interest accelerated in 1972, when a new military government replaced the civilian administration. In May 1972, on a popular Ecuador television program and in other news media, Phoenix alleges that the defendants falsely and maliciously attacked the original 1962 concession and its gross royalty under the 1965 Texaco-Gulf agreement. The television attack was made by the Assistant General Manager of Texaco's Ecuador operations.

"Texaco and Gulf completed the 300-mile Trans-Ecuadorian pipeline from the newly discovered jungle oilfields to the Pacific coast in August 1972. Phoenix alleges that the defendants then stalled on royalty payments until July 1973, when a special, selective 86% income tax was imposed.

"Phoenix claims that the defendants aim was the complete destruction of their royalty interest and alleges that the defendants offered to pay the entire royalty directly to Ecuador as additional taxation. The defendants would substantially benefit from such imposition of direct taxes to replace the royalty obligation. Direct taxes are deductible expenses and a valuable foreign tax credit under U.S. tax law.

"Anti-trust violations under the Sherman Act and Wilson Tariff Act are alleged in the Complaint. If Phoenix prevails in Court, this would result in the trebling of the more than \$600-million in damages claimed.

Canadian Arctic Islands Interests

PHOENIX retains, at least through June 1977, carried net profits and gross royalty interests in over 1,280,000 acres, including 830,837 acres on oil-prospective Northwest Bathurst Island (3.4% carried net profits interest in 704,273 acres and 1.625% gross royalty in 126,564 acres), about 100,000 acres on Ellef Ringnes Island (3.0% carried net profits interest) and about 350,000 acres on Ellesmere Island (0.625% carried net profits interest). Panarctic plans substantial relinquishment of non-prospective acreage from their current gross 70,000,000-acre holdings, but 100% of our joint Northwest Bathurst acreage will be maintained, based on its proximity to the Bent Horn oil development on adjacent Cameron Island. All our Arctic Island interests, largely Panarctic-operated, are now maintained at no cost to PHOENIX.

The late 1975 follow-up to the initial April 1974 Bent Horn discovery (500 bbls/day @ 10,555 ft. — 43° gravity high-quality, light oil from Devonian reef) tested equivalent grade oil at 5,300 bbls/day, with interim flow rates of up to 30,000 bbls/day reported. The fourth step-out is nearing total depth. Wherever porosity has been found in Devonian reef or overlying beds, high quality oil has been present. The geology is complex but the potential for large oil reserves in the sizeable confirmed structures is promising. PHOENIX interests extend to about 20 miles of Bent Horn development. Depending upon rig availability, and based on recent seismic evaluations, we could see drilling on our acreage late this year. Photogeological studies have located numerous major anticlinal structures on PHOENIX acreage, with some suggestion that a geologically favorable "platform" environment underlies our holdings.

Arctic Islands gas reserves, approaching 15-trillion cu. ft., are nearing pipeline thresholds. Bent Horn oil, though still not commercial, remains the Islands' single most promising oil find to date. Threshold oil reserves are recognized as considerably below that of natural gas since ice-reinforced tankers can conceivably market Arctic production almost year-round within perhaps 3 years of a truly commercial discovery.

The best evidence of industry confidence in the Arctic Islands oil basin is exploration expenditures of over \$500,000,000 to date — over \$225,000,000 by Panarctic; \$150,000,000 by others on Panarctic lands; \$25,000,000 on Polar Gas Pipeline technology; and over \$100,000,000 by operators other than Panarctic. Residual PHOENIX carried net profits and royalty interests in over 1,280,000 acres secures our longer term participation at minimum cost. We have regularly reiterated the optimistic estimate of that foremost Arctic Islands pioneer, the late Dr. J.C. Sproule, who predicted that "the Arctic Islands encompass the largest single known undeveloped oil basin in the Western Hemisphere."

Nigeria Royalty Interest

Political, taxation and world oil market uncertainties delay development decisions affecting our gross royalty interest (35.7999% of 1% of 7/8; or 0.31325% of gross production) in the Phillips Petroleum-operated 109,252-acre OML Lease 96. The lease block contains two field discoveries — Gilli Gilli, which tested oil at 2,400 bbls/day of 50.4° gravity high-quality low sulphur light crude and natural gas at 6.85 million cu.ft./day at 6,700 ft.; the confirmation well flowed 1,104 bbls/day of 49° gravity light oil and 552 bbls/day of 35.6° gravity oil. The Gilli Gilli North Field discovery tested 672 bbls/day of 49° gravity light oil at 7,200 ft.

Pipeline (50,000 bbls/day capacity) connection from the Ogharefe Field (Pan Ocean-Marathon), about 10 miles southeast of the Gilli Gilli lease, to a major Shell line about 30 miles south, is nearing completion. Ogharefe producing formations (development wells tested between 8,000 and 15,000 bbls/day) are well below 10,000 ft., indicating interesting untested potential at depth underlying our royalty acreage. Nigerian oil prices, based on their generally premium-grade, high-gravity crude, are being maintained at over \$15.00/bbl.

Nuclear Stimulation As An In Situ Heavy Oil Recovery Technique

PHOENIX is awaiting the imminent decision of the \$100-million Alberta Oil Sands Technical and Research Authority as to their funding of our initial project phase — Environmental Impact Evaluation Statement. The subsurface detonation of a low-yield nuclear device is designed to release controlled thermal and shock energy into the surrounding heavy oil formation to promote and enhance commercial oil production. PHOENIX has proposed an exhaustive evaluation, employing all scientific disciplines, of the environmental effects of a controlled test — including studies of the regional geography, geology, seismology, hydrology, climatology and of all surface and subsurface resources of the Athabaska region of Northeastern Alberta that can conceivably be affected by nuclear activity.

Concern over rapidly declining hydrocarbon reserves has prompted Alberta legislation funding laboratory and field experiments emphasizing in situ heavy oil recovery techniques. Less than 5% of the estimated 600-billion barrels of heavy oil reserves in place are presently recoverable by conventional surface mining operations, and then only under optimum economic conditions. Canada's deepening crude oil deficit is a critical national concern — from a 1974 crude oil trade balance of payments surplus of \$800-million, a \$4.5-billion annual deficit is projected for 1980 and a \$6.8-billion annual deficit by 1985.

Our formal AOSTRA funding presentation proposes four overall project stages: (1) Environmental Impact Evaluation Statement; (2) Political Affairs and Public Relations and Education; (3) Engineering Design, Planning and Financing; and (4) Site Preparation, Detonation and Post-Shot Operations. PHOENIX holds a 70% interest in Canada Patent No. 774,931 (Utilization of Nuclear Energy; issued 2 January 1968); Thayer Lindsley and Northfield Mines Inc. retain the balance. In addition to in situ heavy oil recovery applications, the patent covers the stimulation of natural gas flows in tight formations and the economic mining of deep-seated, low grade metallic mineral deposits. PHOENIX patent applications in preparation expand the basic technology into what we designate our "elbow room" concept — utilizing the nuclear cavity to facilitate conventional secondary steam injection and tertiary fireflood techniques. "Elbow room" provided by the estimated 150-ft. diameter nuclear cavity will expose greatly expanded oil-bearing formation surfaces to the thermal and shock energy required to start and maintain commercial oil production.

USSR nuclear scientists recently reported radiation-free water flows from subsurface nuclear-detonated reservoirs and the stimulation of important new oil production from an older field depleted by conventional production. Nuclear stimulation reportedly increased recoveries up to 50%, while in another existing field, with production limited by tight formations, production rates improved by 150%. Nuclear stimulation took place in 1971, and after several years of monitoring both oil flow rates and safety matters, the official report concludes that "the amount of oil flowing from the nuclear-detonated wells ran to hundreds of millions of tons and has proved

free of radioactivity." Oil formations for over 2500 feet from the point of detonation reportedly were affected but did not pollute or otherwise impair ground water resources being used on surface. Nuclear devices proposed for hydrocarbon formation stimulation are miniatures — less than 1% the yield of devices regularly and successfully detonated at the Nevada Proving Ground — and about 5% of the minimum 150-kiloton device restrictions included in the recent US-USSR Atomic Test Ban Treaty.

Current Developments

The Company has completed an agreement with a consultant coal geologist covering conditions governing the planned acquisition of a potentially major North-western Canada coal prospect indicated as amenable to open pit mining. While potential reserves, which must be determined by exploratory drilling, are very large, production logistics appear difficult and costly. Commercial potential may only be realizable through conversion processes — liquifaction, gasification and on-site power generation. Coal energy transportation to markets would

be by way of power lines and/or natural gas and chemical feedstock pipelines.

While the Company has maintained the good standing of 18 patented Mining Leases comprising our original Snow Lake gold prospect, recent onerous changes in Manitoba mining taxation legislation may make the continued retention of this property uneconomic in the light of the uninspiring gold price trend.

Opportunities in foreign oil exploration licenses and concessions are increasingly limited due to Government intervention and demands for uneconomic "signature" bonuses and work commitments. The Company is, however, maintaining its application on an interesting multi-million acre oil exploration license which still awaits enactment of pending legislation. Preliminary geological evaluation of the promising hydrocarbon potential in another virgin exploration region, enjoying a favorable political environment, is underway and may result in an application effort.

Submitted on Behalf of the Board:
16 June 1976 by: S. DONALD MOORE, President

NOTES TO FINANCIAL STATEMENTS AS AT DECEMBER 31, 1975

1. Accounting policies.

The company has followed the policy of deferring all exploration, development and administration expenses to the commencement of production. As the company is now receiving income from its 1% Production Payment Interest in the Texaco-Gulf Coca Contract, Ecuador, exploration and other costs of \$11,379 have been written off together with \$9,375 of administration expenses. Interests in other petroleum and natural gas rights and mining properties are carried at cost and are not intended to reflect present or future value.

2. Ecuador interests.

Pursuant to Ecuador Ministerial Resolution No. 11927 dated June 3, 1974, the company's Production Payment Interest derived from the Texaco-Gulf Contract of 16th July 1965 has been materially affected as follows:

- (a) Texaco-Gulf must complete quarterly production payments to the Banco Central del Ecuador within 8 days of the end of each quarter; delays are subject to interest penalties; and
- (b) quarterly production payments shall be based on the Tax Reference Price established from time to time by the Ecuador government; and
- (c) the volume of crude oil production on which the company's production payments shall be based is established as gross oil production from the Coca Concession Contract area, less only such produced crude oil consumed in normal operations or through evaporation and for pipeline losses.

3. Ecuador investments.

Pursuant to Ecuador Ministerial Resolution No. 11927, the company is required to invest 50% of its net income in Ecuador in approved national development projects. During the year, the company invested \$212,751 on the purchase of land located within the national capitol of Quito, free and clear of all liens and encumbrances, to be developed as the site of a luxury hotel project. After recovery of all investments and costs out of first proceeds, the company will hold a 30% equity interest in the hotel development and operating company.

4. Payments to Officers and Directors.

During 1975 the company paid \$27,250 to officers and directors for services rendered. No remuneration was paid to directors for their services as directors.

5. Foreign business income taxes.

Due to the payment of direct Ecuador income taxes under the Ecuador Income Tax Code at the rate of 86%, pursuant to Supreme Decree No. 602 dated May 29, 1973, and published in the Official Register of June 4, 1973, the company has no Canadian income tax payable for 1975. The excess of foreign business income tax paid during the year has established a foreign business income tax credit.

6. Contingent liability.

The company has been joined as a co-defendant in a legal action claiming reimbursement of certain expenses and other claims. The action is at an early stage and no opinion can be expressed as to the outcome of this action. However, counsel advises that if the facts as provided to him are accepted, the action will not succeed as against the company.

ASSETS

	1975	1974
Current:		
Cash and deposit receipts	\$ 276,913	\$ 103,630
Marketable securities, at cost (market value 1975 — \$10,461; 1974 — \$9,834)	8,253	8,253
Accounts and deposits receivable (Note 3)	189,829	225,970
Prepaid expenses	—	19
	<u>474,995</u>	<u>337,872</u>
Deposits	<u>—</u>	<u>4,098</u>
Shares and advances in other companies:		
Shares, at cost	1,000	1,000
Advances	1,335	57,208
	<u>2,335</u>	<u>58,208</u>
Fixed, at cost:		
Land for development — Ecuador (Note 3)	212,751	—
Interests in petroleum and natural gas permits and/or leases	100,228	101,812
Mining properties	115,001	115,001
Furniture and fixtures, less accumulated depreciation	1,102	1,356
	<u>429,082</u>	<u>218,169</u>
Deferred:		
Organization expenses	3,770	3,770
Exploration, development and administration expenses	295,951	311,025
	<u>299,721</u>	<u>314,795</u>
	<u>\$1,206,133</u>	<u>\$ 933,142</u>

LIABILITIES

Current:		
Accounts payable and accrued liabilities	\$ 7,272	\$ 9,698

SHAREHOLDERS' EQUITY

Capital stock:		
Authorized: \$5,000,000 divided into 5,000,000 shares of \$1 each		
Issued and fully paid:		
2,021,856 shares	2,021,856	2,021,856
Less: Discount thereon	1,696,096	1,696,096
	<u>325,760</u>	<u>325,760</u>
Surplus	<u>873,101</u>	<u>597,684</u>
	<u>\$1,206,133</u>	<u>\$ 933,142</u>

Approved on behalf of the Board:
S. DONALD MOORE, Director.
JOHN A. MURPHY, Director.

AUDITORS' REPORT

To the Shareholders of
Phoenix Canada Oil Company Limited.

We have examined the balance sheet of Phoenix Canada Oil Company Limited as at December 31, 1975 and the statements of earnings and retained earnings, exploration, development and administration expenses and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have been unable to confirm precise information from the Central Bank of Ecuador or from Texaco-Gulf concerning funds on deposit or amounts receivable from these sources.

Subject to the foregoing, in our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the change in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
June 18, 1976.

Harbison, Hovr & Co.
Chartered Accountants.

STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for the previous year)

	1975	1974
Foreign (Ecuador) gross operating revenues from oil production	\$5,065,566	\$6,130,521
Less: Direct operating expenses: — Pipeline tariffs	70,898	105,655
	<u>4,994,668</u>	<u>6,024,866</u>
Less Foreign (Ecuador) taxation; including income and export taxes, port, pipeline and foreign exchange taxes	4,522,029	5,608,184
Net oil production income	<u>472,639</u>	<u>416,682</u>
Less:		
Administration and general expense	127,655	75,038
Depreciation	276	414
Deferred Ecuador expenses written off and amortization of administration expense	20,754	20,754
	<u>148,685</u>	<u>96,206</u>
Net operating income	323,954	320,476
Net investment income	8,159	9,319
Net income before extraordinary item	<u>332,113</u>	<u>329,795</u>
Extraordinary item:		
Write-off of Ecuador investments and oil properties abandoned	56,696	—
Net income for year	<u>\$ 275,417</u>	<u>\$ 329,795</u>
Earnings per share	<u>13.62 cents</u>	<u>16.56 cents</u>

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for the previous year)

	1975	1974
Balance beginning of year	\$597,684	\$267,889
Net income for year	275,417	329,795
Balance, end of year	<u>\$873,101</u>	<u>\$597,684</u>

STATEMENT OF EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1975

	Mining Claims	Oil and Gas Leases	General	Total
Balance, beginning of year	\$54,228	\$181,794	\$75,003	\$311,025
Additions during year	90	5,590	—	5,680
	<u>54,318</u>	<u>187,384</u>	<u>75,003</u>	<u>316,705</u>
Less: Amortization	—	11,379	9,375	20,754
Balance, end of year	<u>\$54,318</u>	<u>\$176,005</u>	<u>\$65,628</u>	<u>\$295,951</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for the previous year)

	1975	1974
Working capital derived from:		
Net income	\$275,417	\$329,795
Non-cash items	82,930	21,168
	<u>358,347</u>	<u>350,963</u>
Working capital applied to:		
Exploration and development expenses	5,680	7,998
Advances to associated companies	345	136
Purchase of fixed assets (Ecuador land)	212,773	450
	<u>218,798</u>	<u>8,584</u>
Increase (decrease) in working capital	139,549	342,379
Working capital (deficiency) beginning of year	328,174	(14,205)
Working capital (deficiency) end of year	<u>\$467,723</u>	<u>\$328,174</u>

